

**FORM
N-338**
(2006)

TAX CREDIT FOR FLOOD VICTIMS

20__

Or fiscal year beginning _____, 20____, and ending _____, 20____

ATTACH THIS SCHEDULE TO FORM N-11, N-12, N-15, N-20, N-30, N-35, N-40, OR N-70NP

Name	SSN or FEIN
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NOTE: The maximum credit amount is \$10,000 per taxpayer (\$20,000 for married filing joint return), i.e., the maximum amount of costs eligible for the credit is \$100,000 (\$200,000 for married filing joint return).

NOTE: If you are only claiming the tax credit from a flow-through entity, start on line 8.

PART I TAX CREDIT FOR FLOOD VICTIMS

1. Enter the total of qualifying costs directly related to the damage directly caused by heavy rains and flooding occurring on October 30, 2004 in Manoa, Oahu	1	
2. Enter the total of qualifying costs directly related to the damage directly caused by heavy rains and flooding occurring during February 20 to April 9, 2006 in Kauai, Hawaii, Maui, and Honolulu counties.....	2	
3. Add lines 1 and 2	3	
4. Qualifying costs directly related to the damage directly caused by heavy rains and flooding entered on lines 1 and/or 2 for which another credit was claimed or a deduction was taken for the same costs, such as a casualty loss deduction or a deduction taken under Internal Revenue Code Section 179 (election to expense certain depreciable assets).....	4	
5. Subtract line 4 from line 3.....	5	
6. Tax credit percentage	6	10%
7. Multiply line 5 by line 6 and enter the result	7	
8. Flow through of credits received from other entities, if any. <i>Check the applicable box below.</i> Enter the name and Federal Employer I.D. No. of Entity: <input type="checkbox"/> a S corporation shareholder — enter amount from Schedule K-1 (Form N-35), line 12q..... <input type="checkbox"/> b Partner — enter amount from Schedule K-1 (Form N-20), line 27..... <input type="checkbox"/> c Beneficiary — enter amount from Schedule K-1 (Form N-40), line 10..... <input type="checkbox"/> d Patron — enter amount from federal Form 1009-PATR	8	
9. Add lines 7 and 8 and enter the result here.....	9	
10. Tax Credit for Flood Victims — Form N-11, N-12, N-15, N-30, or N-70NP filers, enter the lesser of the amount on line 9 or \$10,000 (\$20,000 for married filing joint return) (rounded to the nearest dollar for individual taxpayers) here and on Schedule CR, line 14 or Schedule CR, line 23, whichever is applicable. (see Instructions)	10	

PART II RECAPTURE OF TAX CREDIT FOR FLOOD VICTIMS

1. Amount of expenses utilized to calculate the credit subsequently recovered, e.g., reimbursed by insurance or other disaster relief payments from government agencies or non-profit organizations.....	1	
2. Tax credit percentage	2	10%
3. Credit Recapture — Multiply line 1 by line 2 and enter the result (rounded to the nearest dollar for individual taxpayers) here. Add this amount to your tax liability for the tax year in which the recapture occurred.....	3	

Are you in compliance with all applicable federal, state, and county statutes, rules, and regulations? Yes No

DECLARATION — I declare, under the penalties set forth in section 231-36, HRS, that this credit claim (including any accompanying schedules or statements) has been examined by me and, to the best of my knowledge and belief, is a true, correct, and complete credit claim, made in good faith for the taxable year stated, pursuant to the Hawaii Income Tax Law, Chapter 235, HRS.

Signature _____	Date _____	Spouse's signature (if filing jointly, BOTH must sign) _____	Date _____
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SPECIAL FILING INSTRUCTIONS**IF YOU ONLY HAVE A LOSS FROM 2004**

Form N-11 and Form N-12 filers can either:

(1) File Form N-188X (noting at the top of the Form N-188X "Flood Victim Tax Credit") to amend your 2004 tax return and claim the tax credit for flood victims and report any 2004 casualty loss deduction, that you now would prefer to allocate to the tax credit, as income.

- OR -

(2) Claim the tax credit for flood victims and report any 2004 casualty loss deduction, that you now would prefer to allocate to the tax credit, as income on your 2006 tax return.

All other filers— Claim the tax credit for flood victims and report any 2004 casualty loss deduction, that you now would prefer to allocate to the tax credit, as income on your 2006 tax return.

IF YOU ONLY HAVE A LOSS FROM 2006

All filers— Claim the tax credit for flood victims on your 2006 tax return.

IF YOU HAVE LOSSES FROM BOTH 2004 AND 2006

All filers— Claim the tax credit for flood victims for both 2004 and 2006 losses and report any 2004 casualty loss deduction, that you now would prefer to allocate to the tax credit, as income only on your 2006 tax return.

GENERAL INSTRUCTIONS

Note: To qualify for this credit, the taxpayer shall certify to the Department of Taxation that the taxpayer is in compliance with all applicable federal, state, and county statutes, rules, and regulations.

Note: to qualify for this credit, the taxpayer shall sign a statement and provide information determined by the Department of Taxation as necessary to claim the credit under penalties of perjury.

Note: If you are claiming the Ethanol Facility Tax Credit, no other credit can be claimed for the taxable year.

Act 110, Session Laws of Hawaii 2006 (Act 110), included as a tax relief measure an income tax credit for those affected by the flooding of the Manoa Stream on October 30, 2004 on Oahu, and the flooding in all counties from February 20 through April 9, 2006 caused by the record rainstorm between February 20 and April 9.

Section 4 of Act 110 provides a one-time income tax credit equal to 10% of the amount the taxpayer spent on costs directly related to the damage directly caused by the heavy rain and flooding to the taxpayer's real or personal property, such as cars, furniture, or carpet. To be eligible for the credit, the costs cannot be reimbursed by insurance or other disaster relief payments from government agencies or non-profit organizations. The maximum credit amount is \$10,000 per taxpayer (\$20,000 for married filing joint return), so the maximum amount of costs eligible for the credit is \$100,000 (\$200,000 for married filing joint return).

The tax credit is generally nonrefundable. However, the tax credit may be refundable for those eligible flood victims who meet the following requirements:

(1) all of the taxpayer's income is exempt from taxation under section 235-7(a)(2), Hawaii Revised Statutes (HRS), i.e., distributions from a public retirement plan or system, or section 235-7(a)(3), HRS, i.e., any compensation received in the form of a pension for past services; or

(2) the taxpayer has Hawaii adjusted gross income of \$20,000 or less.

In the case of a partnership, S corporation, estate, trust, or association of apartment owners, the tax credit allowable is for expenses incurred and paid for by the entity for the taxable year. The costs upon which the tax credit is computed is determined at the entity level.

If a deduction is taken under Internal Revenue Code (IRC) section 179 (regarding an election to expense certain depreciable business assets), no tax credit shall be allowed for that portion of the expenses for which the deduction is taken.

The basis of property shall not be increased by any amount for which the credit is allowed and claimed. In the alternative, the taxpayer shall treat the amount of the credit allowable and claimed as a taxable income item for the

taxable year in which it is properly recognized under the method of accounting used to compute taxable income.

No taxpayer who claims this tax credit shall claim any other credit or deduction for the same expenses, such as a casualty loss deduction, for the taxable year.

Every claim, including amended claims, for this tax credit shall be filed on or before December 31, 2007. Failure to meet this filing requirement shall constitute a waiver of the right to claim the tax credit.

If at any time after claiming the tax credit, the taxpayer no longer qualifies for the credit because the taxpayer subsequently is reimbursed by insurance or other disaster relief payments for expenses utilized to calculate the credit, the credits claimed shall be recaptured. The recapture shall be equal to 100% of the tax credits that were subsequently ineligible as a result of later recovery. The amount of the recaptured tax credit shall be added to the taxpayer's tax liability for the taxable year in which the recapture occurs.

In the case of fraud, making of a false statement, or willful disregard for the facts, associated with making a return or otherwise claiming the tax credit, there shall be added to the amount wrongfully claimed on a return a penalty of 50% of the amount of such credit claimed.

SPECIFIC INSTRUCTIONS**PART I – TAX CREDIT FOR FLOOD VICTIMS**

Enter the applicable tax year in the space provided.

Line 1 — Enter the total of qualifying costs directly related to the damage directly caused by heavy rains and flooding occurring on October 30, 2004 in Manoa, Oahu.

Line 2 — Enter the total of qualifying costs directly related to the damage directly caused by heavy rains and flooding occurring during February 20 to April 9, 2006 in Kauai, Hawaii, Maui, and Honolulu counties.

Line 4 — Enter those costs entered on lines 1 and/or 2 for which another credit was claimed or a deduction was taken for the same costs, such as a casualty loss deduction or a deduction taken under IRC section 179 (election to expense certain depreciable assets).

Line 8 — Flow through of credits received from other entities, if any. In the case of a taxpayer who is a member of a pass-through entity (i.e., partnership, S corporation, estate, or trust), enter the amount of the credit received from the entity on line 8.

Line 10 — This is your tax credit for flood victims.

Form N-11, N-12, N-15, N-30, or N-70NP filers, enter the lesser of line 9 or \$10,000 (\$20,000 for married filing joint return) on line 10 and on Schedule CR, line 14. However, if all of the taxpayer's income is exempt from taxation under sections 235-7(a)(2) or 235-7(a)(3), HRS, or the taxpayer's Hawaii adjusted gross income is \$20,000 or less, enter this amount on Schedule CR, line 23.

Form N-20 filers, enter the lesser of line 9 or \$10,000 on line 10 and on Form N-20, Schedule K, line 27.

Form N-35 filers, enter the lesser of line 9 or \$10,000 on line 10 and on Form N-35, Schedule K, line 12q.

Form N-40 filers, enter the lesser of line 9 or \$10,000 on line 10.

Estates and trusts: The total credit on line 10 is to be allocated between the estate or trust and the beneficiaries in the proportion of the income allocable to each party. On the dotted line to the left of line 10, enter the credit allocable to the estate or trust with the designation "N-40 PORTION". Attach Form N-338 to the N-40 return and enter the estate's or trust's share of the credit on Form N-40, Schedule E, line 14. However, if the estate's or trust's Hawaii adjusted gross income is \$20,000 or less, enter the estate's or trust's share of the credit on Form N-40, Schedule F, line 11. Enter the distributive share of the credit for each beneficiary on Form N-40, Schedule K-1, line 10.

PART II – RECAPTURE OF TAX CREDIT FOR FLOOD VICTIMS

Line 1 — Enter the amount of expenses utilized to calculate the credit subsequently recovered, e.g., reimbursed by insurance or other disaster relief payments from government agencies or non-profit organization.

Line 3 — This is your credit recapture. Add this amount to your tax liability for the tax year in which the recapture occurred.